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ABSTRACT

The process of money management should be taught as soon as the child becomes aware of money, usually as early as ages 3 or 4. At this level, teaching may be in the form of explaining the difference between the value of a nickel and a dime. Money management training often begins with the allocation of an allowance. Parents are advised not to link allowances with household chores. Regardless of the rationale for distributing allowances, training in the handling of money is imperative. It is suggested that beginning money management be taught by playing store, by using shopping lists, choice making, and other games. Other factors to consider in relation to age of the child are frequency of payments and raises in the size of allowances. Once the child has learned the concepts related to money management, the natural transition may be to learn about banking and how to obtain credit. Parents should try to keep the learning experience in perspective and remember that mistakes will be made. Comer(1985) says that parents are best able to teach good money management habits when they provide good models for imitation. (BZ)

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TEACHING CHILDREN HOW TO HANDLE MONEY

BY

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TEACHING CHILDREN HOW TO HANDLE MONEY

Money has become increasingly more important as the medium of exchange as we have moved from an agrarian to an industrial and finally a service/information economy. It is through the processes of spending, saving, investing and/or exchanging that we fully realize the power of money.

Money is typically described as the basic tool used to meet the needs and wants of individuals. It is through the process of consumption of goods and services that satisfaction is derived. However, we are faced with the condition of scarcity, the competition between limited resources and unlimited wants and needs. This fight among ever-growing desires and stable resources makes it imperative to learn effective decision-making skills.

The potential impact of money on our lives makes it critically important for children to learn. Those children who learn basic money management concepts early, have a head start on a task that tends to become more difficult and complex as one moves through the life cycle. This task begins by understanding the concept of what money is or how it can be used to meet needs and wants. Then it progresses to such things as using credit, paying taxes, investing and understanding the effects of inflation.

Parents and educators often ask when should we begin teaching the process of money management? The response is, when the child becomes aware. Barbanel (1968) says this can begin as early as age three or four.

At this level, teaching may be in the form of explaining the difference between the value of a nickel and a dime. Often times children tend to associate value with size. Therefore, a nickel "looks" more valuable than a dime. In addition, pennies are often perceived as being more important than other coins, because they are a different color.

The sooner the child is taught cognitive concepts relevant to money, the better he/she will be in managing their money. Those who learn to make decisions and follow spending plans as youth are better able to make wise choices later in their life (Costello, 1984).

Often times money management training begins with the allocation of an allowance. This allowance can be given with or without terms of allocation for its utilization. Some allowances are given just because one is a member of a family and others have chores and conditions attached. Regardless of rationale for distributing allowances, training in the handling of money is imperative.

Parents are advised not to link allowances with household chores. It is believed that paying children for duties performed

as a member of a family can have a negative impact of family relationships (U.S. News and World Report, 1986). The problem arises when the child decides that he/she prefers not to have the money, therefore is not willing to perform the designated chores.

At this beginning stage of development in regards to money management, you may begin teaching concepts by playing store. This teaches the child how to pay for an item and also how to make change. The process may involve buying one item and then progressing to multiple items. Addition and subtraction is validated through this process. Decision making is also taught through this buying process. For example, the child is taught that 25¢ can buy only specific items. You may help the child in deciding what to purchase by pre-establishing criteria. For example, if you have been talking about nutrition and how nutrients supply the body with energy necessary for growth and development, this could be part of the decision-making process. The child may have 50¢ to purchase one snack item. The choices may be a candy bar, an apple, potato chips, or popcorn. The child's choice may not only involve cost consideration but nutrition education.

Choice making may also be taught with the use of lists. That is, the child may have a list of several things that they want and a limited allowance for purchasing those items. They can be taught about the concept of scarcity and delay gratification. The

idea that they may not be able to purchase all the things that they want right away, but if they are willing to wait and save, they can satisfy their needs at a later point in time.

Concepts of money management may also be emphasized in games. As the child gets older, parents may introduce board games that encourage desirable purchase behaviors. Once children are exposed to the concepts of buymanship and savings, their interest tends to branch out into other areas of money management.

The question is often raised as to the size of the allowance. Parents must be realistic, the allowance should not be so low it will not cover any of the child's needs. Nor should it be so large that the choice making is not a challenge. After some discussion between the parents and child, guidelines can be established (Weinstein, 1975).

In a study conducted by Consumers Union (1983), it was found that most children 8 to 10 years received allowances ranging from $2.00 per week to $5.25 per week. The allowances for the 8 to 11-year olds are about the same, $2.00 to $2.75. But the 12-13-year olds received from $3.75 to $5.75 per week. This same study indicates that three-fourths of the 1,300 children survey rated their allowances generous or fair.

Parents should not forget that frequency of payment and raises in size of allowances should be considered and made. As children get older, they should be able to handle larger

allocations and may not need to receive money every week. The writers of the section "Your Money" (U.S. News and World Report, 1986) suggest the following guidelines.

By age six the weekly allowance should be large enough to include 50¢ to a $1.00 that can spent any way a child wants. By age 13, an allowance should be broken to three parts, spending money, savings and fixed expenses for items such as lunches and school supplies. If a child loses money, which happens fairly often, don't replace it except for when it needs to cover necessities. Let children observe how you plan family purchase from bringing a shopping list to the grocery store to setting aside money from paycheck for such major expenses for vacations.

Age 12 to 18, teenagers should be able to budget for a month at a time or even quarterly. A seasonal clothing budget, in addition to the allowance, is a good way to teach this kind of long-range budgeting. Many parents trust their children to shop with credit and charge cards. By this time they are in their early teens.

Once the child has learned the concepts related to money management, the natural transition may be to learn about banking and how to buy credit. Whatever the next logical step, it is important for parents to remember that mistakes will be made. Learn to use the mistakes as a positive teaching tool rather than a negative item. Parents should try to keep the learning

experiences in perspective. Remember, it is less costly to make a 50¢ mistake versus a $50,000 error. Comer (1985) says that parents are best able to teach good money management habits when they provide good models for imitation.

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